Financial Statements

University Health Network

March 31, 2009

Ernst & Young

Quality In Everything We Do

AUDITORS' REPORT

To the Board of Trustees of
University Health Network

We have audited the statement of financial position of **University Health Network** ["UHN"] as at March 31, 2009 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of UHN's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of UHN as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
May 22, 2009.

University Health Network

STATEMENT OF FINANCIAL POSITION

[in thousands of dollars]

As at March 31

	2009 $	2008 $
ASSETS *[note 9]*		
Current		
Cash and cash equivalents	**116,643**	93,774
Accounts receivable *[note 3]*	**122,659**	113,200
Inventory	**11,520**	10,680
Prepaid expenses	**4,772**	4,680
Total current assets	**255,594**	222,334
Loans receivable *[note 4]*	**3,250**	2,841
Capital assets, net *[note 5]*	**997,886**	1,034,263
Long-term investments *[note 6]*	**185,541**	171,046
	1,442,271	1,430,484
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	**261,834**	252,941
Current portion of long-term liabilities *[notes 7 and 9]*	**13,558**	12,814
Total current liabilities	**275,392**	265,755
Due to MaRS Development Trust *[note 7]*	**90,701**	92,076
Deferred contributions *[note 8]*	**129,853**	115,375
Long-term debt *[note 9]*	**233,092**	245,275
Employee future benefit liabilities *[note 10]*	**22,362**	20,830
Deferred capital contributions *[note 11]*	**422,618**	429,325
Total liabilities	**1,174,018**	1,168,636
Commitments and contingencies *[note 15]*		
Total net assets	**268,253**	261,848
	1,442,271	1,430,484

See accompanying notes

University Health Network

STATEMENT OF OPERATIONS

[in thousands of dollars]

Year ended March 31

	2009 $	2008 $
REVENUE		
Ontario Ministry of Health and Long-Term Care/		
Toronto Central – Local Health Integration Network		
Hospital programs	**800,169**	771,938
Specifically funded programs	**33,617**	32,337
Other patient services	**164,852**	131,591
Grants and donations for research and other purposes *[notes 8 and 14]*	**213,782**	202,109
Ancillary services and other *[notes 6[b], [c] and [d]]*	**198,741**	164,761
Amortization of deferred capital contributions *[notes 5 and 11]*	**70,923**	60,583
	1,482,084	1,363,319
EXPENSES		
Compensation *[note 10]*	**900,402**	815,992
Medical, surgical supplies and drugs	**173,553**	162,956
Specifically funded programs	**33,817**	32,894
Plant operations and equipment maintenance	**74,357**	63,937
Depreciation *[note 5]*	**92,313**	84,758
Write-off of capital assets	**6,761**	8,256
Interest on long-term liabilities *[notes 7 and 9]*	**20,330**	21,364
Supplies and other *[notes 6[b] and [c]]*	**174,146**	172,424
	1,475,679	1,362,581
Excess of revenue over expenses for the year	**6,405**	738

See accompanying notes

University Health Network

STATEMENT OF CHANGES IN NET ASSETS

[in thousands of dollars]

Year ended March 31

	2009		
	Invested in capital assets $	**Surplus (deficit)** $	**Total** $
	[note 12[a]]		
Net assets, beginning of year	**265,669**	**(3,821)**	**261,848**
Excess of revenue over expenses for the year	**—**	**6,405**	**6,405**
Net change in net assets invested in capital assets *[note 12[b]]*	**(17,006)**	**17,006**	**—**
Net assets, end of year	**248,663**	**19,590**	**268,253**

	2008		
	Invested in capital assets $	**Surplus (deficit)** $	**Total** $
	[note 12[a]]		
Net assets, beginning of year	270,862	(9,752)	261,110
Excess of revenue over expenses for the year	—	738	738
Net change in net assets invested in capital assets *[note 12[b]]*	(5,193)	5,193	—
Net assets, end of year	265,669	(3,821)	261,848

See accompanying notes

University Health Network

STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2009 $	2008 $
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	**6,405**	738
Add (deduct) items not involving cash		
Write-off of capital assets	**6,761**	8,256
Depreciation	**92,313**	84,758
Amortization of deferred capital contributions	**(70,923)**	(60,583)
	34,556	33,169
Net change in non-cash working capital balances related to operations *[note 13]*	**(1,498)**	(2,708)
Net increase in deferred contributions	**14,478**	9,903
Net increase in employee future benefit liabilities	**1,532**	1,880
Cash provided by operating activities	**49,068**	42,244
INVESTING ACTIVITIES		
Purchase of capital assets	**(71,406)**	(97,653)
Decrease in short-term investments	**—**	2,093
Decrease (increase) in loans receivable	**(409)**	619
Increase in long-term investments	**(14,495)**	(10,089)
Cash used in investing activities	**(86,310)**	(105,030)
FINANCING ACTIVITIES		
Contributions received for capital purposes	**72,925**	82,378
Decrease in due to MaRS Development Trust	**(1,286)**	(1,204)
Repayment of long-term debt	**(11,528)**	(10,900)
Cash provided by financing activities	**60,111**	70,274
Net increase in cash during the year	**22,869**	7,488
Cash and cash equivalents, beginning of year	**93,774**	86,286
Cash and cash equivalents, end of year	**116,643**	93,774

See accompanying notes

University Health Network

NOTES TO FINANCIAL STATEMENTS

[all amounts in thousands of dollars, except where noted]

March 31, 2009

1. PURPOSE OF THE ORGANIZATION

University Health Network ["UHN"] is a corporation without share capital incorporated under the University Health Network Act, 2002, devoted to patient care, education and research. UHN operates on three hospital sites. These sites are separately identified as Princess Margaret Hospital, Toronto General Hospital and Toronto Western Hospital.

As a charitable organization under the Income Tax Act (Canada) [the "Act"], UHN is exempt from income taxes. In order to maintain its status as an organization registered under the Act, it must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

Basis of presentation

These financial statements do not include the financial activities of the following non-controlled not-for-profit entities *[note 14]*:

- Toronto General and Western Hospital Foundation [the "TG/WH Foundation"]
- Princess Margaret Hospital Foundation [the "PMH Foundation"]
- The Arthritis and Autoimmunity Research Centre Foundation [the "AARC Foundation"]
- The Toronto Hospital Research Corporation

UHN's investment in Yi-En Medical System Research and Development (Shanghai) Co. Ltd. ["Shanghai Research and Development"], a for-profit entity, is accounted for by the equity method *[note 6[d]]*.

Cash and cash equivalents

Cash and cash equivalents include cash on deposit and short-term investments that have a term of maturity of less than 90 days at date of purchase.

Revenue recognition

UHN follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the period in which the related expenses are incurred.

Revenue from ancillary services and other patient services are recognized when the goods have been sold or when the services have been rendered.

Employee benefit plans

UHN accrues its obligations under employee benefit plans and the related costs. UHN has adopted the following policies:

[a] Multi-employer plan

Defined contribution accounting is applied for the Hospitals of Ontario Pension Plan ["HOOPP"], a multi-employer pension plan, whereby contributions are expensed when due, as UHN has insufficient information to apply defined benefit plan accounting.

[b] OCI Pension Plan

Certain employees of UHN have remained in a voluntary pension plan that was established for the employees of the former Ontario Cancer Institute/Princess Margaret Hospital [the "OCI Pension Plan"]. UHN accounts for the OCI Pension Plan on a defined contribution basis, whereby contributions are expensed when due.

[c] Other defined benefit plans

UHN has adopted the following policies for other defined benefit plans:

- The cost of non-pension post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care costs.
- Past service costs from plan amendments and the net transitional liability are amortized on a straight-line basis over the average remaining service period of employees.
- Liabilities are discounted using current interest rates on long-term bonds.
- The excess of the cumulative unamortized balance of the net actuarial gain (loss) over 10% of the benefit obligation is amortized over the remaining service period of the active employees.

Inventory

Inventory is recorded at the lower of weighted average cost and current replacement value.

Investments

Investments in for-profit entities that are subsidiaries or joint ventures, or where there is significant influence, are accounted for by the equity method. Other investments are accounted for at amortized cost plus accrued interest.

Fixed-income investments with fixed or determinable payments that management has the positive intention and ability to hold to maturity are recorded at amortized cost using the effective interest rate method. Other investments are recorded at fair value. Publicly traded securities are valued based on latest bid prices. Short-term securities are valued based on cost plus accrued income, which approximates fair value. Transactions are recorded on the settlement date basis and transaction costs are expensed when incurred.

Capital assets

Purchased capital assets are recorded at cost. Donated capital assets are recorded at fair market value at the date of contribution. Capital assets are depreciated on a straight-line basis at annual rates based on the estimated useful lives of the assets as follows:

Buildings and improvements	5 years to 50 years
Equipment and furniture	2 years to 20 years

Assets leased on terms that transfer substantially all of the benefits and risks of ownership to UHN are accounted for as capital leases, as though the asset had been purchased and a liability incurred. All other leases are accounted for as operating leases.

Construction in progress comprises direct construction, development costs and net capitalized interest. Interest costs, net of related interest income, are capitalized during the construction period. No depreciation is recorded until construction is substantially complete and the assets are ready for productive use.

Deferred capital contributions

Capital contributions for the purpose of acquiring depreciable capital assets are deferred and amortized on the same basis, and over the same periods, as the related capital assets.

Long-term debt

Long-term debt is initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

In particular, the amount of revenue recognized from the Ontario Ministry of Health and Long-Term Care [the "MOHLTC"] and Toronto Central Local Health Integration Network [the "TC-LHIN"] requires a number of estimates. UHN has entered into a Hospital Service Accountability Agreement [the "HSAA"] with the TC-LHIN that sets out the rights and obligations of the two parties in respect of funding provided to UHN by the TC-LHIN for fiscal years 2009 and 2010.

The HSAA sets out certain performance standards and obligations that establish acceptable results for UHN's performance in a number of areas; such as profitability, liquidity and operating volumes.

If UHN does not meet its performance standards or obligations, the MOHLTC and TC-LHIN have the right to adjust funding received by UHN. The MOHLTC and TC-LHIN are not required to communicate certain funding adjustments until after the submission of year-end data. Since this data is not submitted until after the completion of the financial statements, the amount of MOHLTC and TC-LHIN funding received during the year may be increased or decreased subsequent to year-end. The amount of revenue recognized in these financial statements represents management's best estimate of amounts that have been earned during the year.

Financial instruments

UHN has chosen to apply CICA 3861, *Financial Instruments - Disclosures and Presentation*, in place of CICA 3862, *Financial Instruments - Disclosures* and CICA 3863, *Financial Instruments - Presentation*.

Change in accounting policies

Effective April 1, 2008, UHN adopted the recommendations of CICA 1535: *Capital Disclosures*, which require the disclosure of qualitative and quantitative information that enables users of the financial statements to evaluate UHN's objectives, policies and processes for managing capital. The adoption of these recommendations required additional disclosures which are provided in note 17.

Future changes in accounting policies

The CICA has issued revisions to the 4400 series and certain other sections that relate to not-for-profit organizations. With respect to presentation, these changes include making the disclosure of net assets invested in capital assets optional; making CICA 1540: *Cash Flow Statements* applicable to not-for-profit organizations; and requiring the reporting of revenue and expenses on a gross basis in the statement of operations unless not required by other guidance. A new section, CICA 4470: *Disclosure of Allocated Expenses by Not-for-Profit Organizations*, was included in the revisions which requires certain disclosures when fundraising and general support expenses are allocated to other functions. These changes in accounting policies must be adopted by fiscal years beginning on or after January 1, 2009, with earlier adoption permitted. Management is assessing the impact of these revisions. However, the impact will be limited to reclassification of figures in the financial statements and additional disclosures.

The CICA has amended CICA 1000: *Financial Statement Concepts* to clarify that assets not meeting the definition of an asset or the recognition criteria are not permitted to be recognized on the statement of financial position. The amendments are effective for financial statements for fiscal years beginning on or after October 1, 2008. UHN is examining its current approach to recognizing costs as assets and will implement these standards effective April 1, 2009 retroactively with restatement of the prior year. The impact of implementing these amendments on UHN's financial statements is currently not known.

[all amounts in thousands of dollars, except where noted]

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2009 $	2008 $
Ontario Ministry of Health and Long-Term Care/ Toronto Central - Local Health Integration Network	**8,234**	12,798
Patient receivables	**9,883**	9,889
Other receivables	**22,770**	18,392
Princess Margaret Hospital Foundation *[note 14[b]]*	**18,475**	17,350
Toronto General and Western Hospital Foundation *[note 14[a]]*	**5,601**	3,948
Arthritis & Autoimmunity Research Centre Foundation *[note 14[c]]*	**1,516**	871
Research-related receivables	**55,438**	48,428
Current portion of loans receivable *[note 4]*	**742**	712
Toronto Medical Laboratories Limited Partnership *[note 6[b]]*	**—**	812
	122,659	113,200

4. LOANS RECEIVABLE

Loans receivable consist of the following:

	2009 $	2008 $
Term loans		
[a] 7.25% per annum with quarterly interest payments, maturing July 1, 2011 *[note 6[c]]*	**900**	—
[b] 6.21% per annum with equal quarterly blended payments of $71, maturing August 21, 2010 *[note 6[c]]*	**—**	653
[c] 6.21% per annum with equal quarterly blended payments of $128, maturing March 31, 2010	**492**	1,050
[d] 2.27% per annum with quarterly interest payments, maturing on December 31, 2013 *[note 6[d]]*	**750**	—
Other loans receivable	**1,850**	1,850
	3,992	3,553
Less current portion included in accounts receivable *[note 3]*	**742**	712
	3,250	2,841

[all amounts in thousands of dollars, except where noted]

[a] On June 13, 2008, UHN issued a vendor take back note of $900 to a third party, with principal payments commencing on July 1, 2009 and quarterly interest payments commencing on September 1, 2008 *[note 6[c]]*.

[b] On August 21, 2006, UHN advanced a four-year term loan of $1,000 to PRISM Partners Inc. ["PRISM"], with payments commencing on November 21, 2006. This loan was repaid in full upon the sale of the subsidiary *[note 6[c]]*.

[c] As at March 31, 2006, UHN advanced a four-year term loan of $1,800 to a third party, with payments commencing on June 30, 2006. A general security interest over the third party's personal property has been pledged as collateral against the loan. The loan is subordinated to the interest of the third party's bankers and is guaranteed by the third party's parent company.

[d] As at January 31, 2009, UHN advanced a five-year term loan of $750 to Shanghai Research and Development, a related party *[note 6[d]]*, with interest due on a quarterly basis commencing March 31, 2009. The principal may be repaid at any time during the loan period and the remaining balance outstanding is repayable in full on December 31, 2013.

5. CAPITAL ASSETS

Capital assets consist of the following:

	2009		
	Cost $	**Accumulated depreciation** $	**Net book value** $
Land	**5,564**	**—**	**5,564**
Buildings and improvements	**1,071,079**	**320,682**	**750,397**
Equipment and furniture	**605,393**	**407,896**	**197,497**
Construction in progress	**44,428**	**—**	**44,428**
	1,726,464	**728,578**	**997,886**

[all amounts in thousands of dollars, except where noted]

	2008		
	Cost $	**Accumulated depreciation** $	**Net book value** $
Land	5,564	—	5,564
Buildings and improvements	1,075,549	301,282	774,267
Equipment and furniture	573,890	370,352	203,538
Construction in progress	50,894	—	50,894
	1,705,897	671,634	1,034,263

Buildings and improvements include $88,329 [2008 - $88,329] of costs and $10,796 [2008 - $7,852] of accumulated depreciation related to assets under capital lease obligations *[note 7]*.

Effective April 1, 2008, UHN changed its estimate of useful life for certain of its building renovations from 20 years to 10 years. This resulted in a net increase in depreciation expense of $2,873 and a net increase in amortization of deferred capital contributions revenue of $1,208 for the year ended March 31, 2009. It is not practical to determine the impact of this change on future periods.

6. LONG-TERM INVESTMENTS

Long-term investments consist of the following:

	2009 $	**2008** $
Cash and cash equivalents	**56,424**	42,418
Government bonds	**84,394**	76,477
Corporate bonds	**44,684**	48,984
Other intercompany investments		
Toronto Medical Laboratories Limited Partnership	**—**	2,211
PRISM Partners Inc.	**—**	456
Shanghai Research and Development	**39**	500
	185,541	171,046

Cash and cash equivalents are included in long-term investments to the extent required for long-term investments to be equal to the total of contingency funds held in segregated trust accounts *[note 6[a]]*, and the balance of deferred contributions.

The bonds have an average term to maturity of two years, an average yield of 3.32% and a market value of $131,470 [2008 - $126,967]. During the year, UHN earned $5,047 [2008 - $5.855] in investment income, which is included in ancillary services and other revenue.

[a] Contingency funds

Included in long-term investments are amounts held in segregated trust accounts for contingency funds established by UHN based on agreements with the MOHLTC and bondholders.

One fund, with a balance of $25,000, is held to ensure patient services are not reduced due to financial pressures resulting from UHN's commitments to bondholders *[note 9]*. The fund will be terminated on maturity of the 5.64% Secured Bonds or earlier with the mutual agreement of the MOHLTC and UHN.

In connection with the bond agreement *[note 9]* UHN is also required to hold the equivalent of one semi-annual bond payment of $12,528 in a segregated account known as the Debt Service Reserve Account until the debt is fully paid.

A second contingency fund of $15,632 has been established since 2004 to ensure patient services are not reduced due to financial pressures resulting from UHN's commitments to the MaRS Development Trust [the "MaRS Trust"] *[note 7]*. The fund will be terminated on the expiry of the 30-year term of the lease or earlier with the mutual agreement of the MOHLTC and UHN.

[b] Toronto Medical Laboratories Limited Partnership ["TMLLP"]

TMLLP was originally established to market and provide laboratory services to other hospitals, develop and commercialize laboratory-related innovations and technologies, and lead in research, training and development with respect to laboratory medicine, technologies and utilization.

Effective September 30, 2008, TMLLP was dissolved. As a part of the dissolution agreement, UHN received a closing cash distribution of $1,667 and a promissory note in the amount of $1,043 for the redemption of limited partnership units, which was repaid as at March 31, 2009. UHN also purchased TMLPP's capital assets for $599, which were capitalized as a part of equipment and furniture. The labs now operate under the name of UHN Labs, positioning UHN as the premier provider of pathology services in the Province of Ontario.

During the year, prior to the dissolution, UHN recorded a pro-rata share of TMLLP's earnings of $499 [2008 - $1,318] as ancillary services and other revenue, as well as charged laboratory testing services of $2,013 [2008 - $4,211] to TMLLP, which is recorded as ancillary services and other revenue and purchased administration services of $700 [2008 - $1,400], which is recorded as supplies and other expenses. As at March 31, 2008, UHN reported an amount of $812 due from TMLLP, which was included in accounts receivable *[note 3]*. The following amounts represent UHN's 50% share of the assets, liabilities, equity, revenue, expenses and distributions of TMLLP as at and for the year ended March 31:

[all amounts in thousands of dollars, except where noted]

	2009 $	2008 $
Assets	—	2,712
Liabilities	—	501
Equity	—	2,211
Revenue	**2,578**	9,281
Expenses	**2,079**	7,963
Distributions	**2,710**	1,500

[c] PRISM Partners Inc.

Effective June 13, 2008, UHN sold its shares in its wholly owned subsidiary, PRISM Partners Inc., for total cash proceeds of $300 and a loan receivable of $900 *[note 4[a]],* recognizing a gain on the sale of $587 reported as ancillary services and other revenue.

During the year, prior to the sale, UHN recorded PRISM's net earnings of $154 [2008 - $134] as ancillary services and other revenue. UHN was charged indirect project management and cost control fees of $225 [2008 - $716] by PRISM, which were expensed as supplies and other, and project specific management fees of $167 [2008 - $1,250], which were capitalized as part of construction in progress. As at March 31, 2008, UHN reported amounts owing from PRISM of $653, which were recorded as a loan receivable *[note 4[b]]*. The following amounts represent UHN's 100% share of the assets, liabilities, equity, revenue and expenses of PRISM as at and for the year ended March 31:

	2009 $	2008 $
Assets	—	2,120
Liabilities	—	1,664
Equity	—	456
Revenue	**1,678**	7,051
Expenses	**1,524**	7,185

[all amounts in thousands of dollars, except where noted]

[d] Yi-En Medical System Research and Development (Shanghai) Co. Ltd.

Shanghai Research and Development, a wholly owned for-profit subsidiary of UHN, was incorporated on April 14, 2006 to undertake medical research and development to discover new technologies and therapies to treat major human diseases. UHN committed an investment of U.S. $2,000 of which the full amount has been paid up to March 31, 2009 through advances totaling U.S. $1,400 to date [2009 - U.S. $250 and 2008 – U.S. $500] and a loan receivable for CDN $750 *[note 4[d]]*. During the year, UHN recorded Shanghai Research and Development's net loss of $711 [2008 - $607] as ancillary services and other revenue. The following amounts represent UHN's 100% share of the assets, liabilities, equity, revenue and expenses of Shanghai Research and Development as at and for the year ended March 31:

	2009 $	2008 $
Assets	**917**	501
Liabilities	**128**	1
Long-term loan	**750**	—
Equity	**39**	500
Revenue	**252**	6
Expenses	**963**	613
Advances	**250**	552

[e] Other intercorporate investments

UHN has a minority interest in a variety of early-stage research entities with no current market value for which no value has been recorded in the accounts.

7. DUE TO MaRS DEVELOPMENT TRUST

In 2003, UHN entered into a 30-year agreement with the MaRS Trust to lease a 400,000 square foot building, the Toronto Medical Research Tower [the "TMRT"]. UHN is committed to an annual payment of $7,541, which commenced on August 1, 2005, at an implicit interest rate of 6.7%. UHN recognized an obligation of $100,000, consisting of a long-term capital lease obligation of $88,329 representing the cost of the building to the MaRS Trust *[note 5]*, and a further long-term obligation of $11,671 representing cash received and receivable from the MaRS Trust related to financing proceeds in excess of the cost of the building and leasehold inducements. The obligation has been reduced by payments made since August 1, 2005, when payments commenced.

[all amounts in thousands of dollars, except where noted]

UHN has subleased 136,597 square feet of the TMRT. The sublease expires July 31, 2020 and has an annual average base rent of $2,809.

The future minimum annual payments related to the amount due to the MaRS Trust consist of the following:

	$
2010	**1,375**
2011	**1,468**
2012	**1,569**
2013	**1,676**
2014	**1,790**
Thereafter	**84,198**
Due to MaRS Development Trust	**92,076**
Less current portion	**1,375**
	90,701

8. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent externally restricted grants and donations for research and other purposes. The changes in the deferred contributions balance are as follows:

	2009 $	**2008** $
Deferred contributions, beginning of year	**115,375**	105,472
Externally restricted contributions received *[note 14]*	**228,260**	212,012
Less amounts recognized as revenue	**(213,782)**	(202,109)
Deferred contributions, end of year	**129,853**	115,375

[all amounts in thousands of dollars, except where noted]

9. LONG-TERM DEBT

Long-term debt consists of the following:

	2009 $	2008 $
5.64% Secured Bonds, maturing December 8, 2022	**240,167**	251,187
4.991% Term loan compounded semi-annually with monthly blended payments of $64, maturing April 1, 2012	**5,108**	5,616
	245,275	256,803
Less current portion	**12,183**	11,528
	233,092	245,275

On December 8, 1998, UHN issued $281,000 of 5.64% Secured Bonds, Series 1 at a price of $999.27 with a maturity date of December 8, 2022. The proceeds of the issue were used to fund UHN's redevelopment plan known as Project 2003. A first fixed charge on and assignment of all cash receipts, book debts and monies of UHN and a floating charge on all other property and assets of UHN, other than certain excluded assets such as funds held for research grants and donations included in deferred contributions *[note 8]*, are pledged as collateral for the Secured Bonds. Blended semi-annual payments of principal and interest of $12,528 commenced June 8, 2005.

Repayments of the long-term debt are as follows:

	$
2010	12,183
2011	12,878
2012	13,611
2013	17,199
2014	14,557
Thereafter	174,847
	245,275

10. EMPLOYEE BENEFIT PLANS

UHN has a number of defined benefit plans and participates in a defined contribution plan providing pension, other retirement and post-employment benefits to most of its employees.

[a] Multi-employer plan

Substantially all of the employees of UHN are members of HOOPP which is a multi-employer, defined benefit, final average earnings, contributory pension plan. HOOPP is accounted for as a defined contribution plan. UHN's contributions to HOOPP during the year amounted to $48,429 [2008 - $46,061]. These amounts are included in compensation expense in the statement of operations. The most recent valuation for accounting purposes completed by HOOPP as of December 31, 2008 disclosed a smoothed asset value of $30,261 million with accrued pension liabilities of $31,244 million, resulting in a deficit of $983 million.

[b] OCI Pension Plan

Certain employees of UHN have remained in a voluntary hybrid defined benefit/defined contribution pension plan that was established for the employees of the former Ontario Cancer Institute/Princess Margaret Hospital.

Employees of the OCI Pension Plan have been given the option to transfer from the Plan to HOOPP, and these transfers are being completed in three phases, with the intention to eventually wind up the OCI Pension Plan. On December 1, 2006, Phase I was approved by the Financial Services Commission of Ontario [the "FSCO"], and during fiscal 2007, $57,416 was transferred to HOOPP. On July 2, 2008, Phase II was approved by the FSCO and during fiscal 2008, $15,057 was transferred to HOOPP.

The effective date of the Phase III transfer is April 1, 2009. As part of the Phase III transfer, a partial asset transfer valuation is being performed. The report, together with any necessary documents, will be filed with the FSCO once the valuation is completed.

The OCI Pension Plan is being partially wound up as at March 31, 2009. After the completion of the Phase III transfer and the partial wind up, there will only be former employees [pensioners and terminated vested members] remaining in the OCI Pension Plan.

As at December 31, 2008, the assets of the OCI Pension Plan were $57,373 and the estimated liabilities on a solvency basis were $52,189. At this time, the liabilities as at March 31, 2009 have not been calculated but are expected to increase from the December 31, 2008 estimates due to a decrease in the prescribed interest rates to be used in the calculation of solvency liabilities.

[all amounts in thousands of dollars, except where noted]

The amount of the Phase III transfer will be determined once the partial asset transfer valuation is complete. This is dependent on the amount of the obligations being transferred to HOOPP and the calculation by the HOOPP actuary will be a major input in determining the final transfer amount. Management believes that the assets of the OCI Pension Plan will be adequate to fund the liabilities.

UHN's contributions of $71 [2008 - $73] to the OCI Pension Plan have been recorded in compensation expense in the statement of operations.

[c] Other defined benefit plans

UHN offers various non-pension post-employment and post-retirement benefit plans to its employees that provide life insurance, medical and dental benefits. These plans are accounted for as defined benefit plans and are not funded by UHN.

Information about UHN's other defined benefit plans is as follows as at March 31:

	2009 $	**2008** $
Accrued benefit obligations	**18,813**	24,407
Unamortized net transitional liability	**(1,655)**	(2,206)
Unamortized actuarial gain	**6,533**	353
Unamortized past service costs	**(1,329)**	(1,724)
Employee future benefit liabilities	**22,362**	20,830

The net expense for these plans for the year ended March 31, 2009 is $3,006 [2008 - $2,916].

The significant actuarial assumptions adopted in measuring UHN's accrued benefit obligations are as follows:

	2009 %	**2008** %
Discount rate	**8.50**	5.75
Rate of compensation increase	**3.00**	3.00

[all amounts in thousands of dollars, except where noted]

The significant actuarial assumptions adopted in measuring UHN's expenses for the year ended March 31 are as follows:

	2009 %	**2008** %
Discount rate	**5.75**	5.25
Rate of compensation increase	**3.00**	2.50

Health care costs were assumed to increase by 11% in 2009, declining by 1% per year to 6% in 2014. Dental costs were assumed to increase by 4% per year.

The accrued benefit obligations of the other defined benefit plans are measured as at March 31, and are based on an actuarial valuation as of April 1, 2007.

Other information about UHN's defined benefit plans is as follows:

	2009 $	**2008** $
Employer's contributions	**1,475**	885
Employees' contributions	**—**	—
Benefits paid	**1,475**	885

11. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of capital assets. The changes in the deferred capital contributions balance as at March 31 are as follows:

	2009 $	**2008** $
Deferred capital contributions, beginning of year	**429,325**	407,530
Add contributions received for capital purposes *[note 14]*	**72,925**	82,378
Less amortization of deferred capital contributions	**(70,923)**	(60,583)
Less deferred capital contributions related to the write-off of capital assets	**(8,709)**	—
Deferred capital contributions, end of year	**422,618**	429,325

[all amounts in thousands of dollars, except where noted]

12. NET ASSETS INVESTED IN CAPITAL ASSETS

[a] Net assets invested in capital assets is calculated as follows:

	2009 $	**2008** $
Capital assets, net *[note 5]*	**997,886**	1,034,263
Less amounts funded by		
Deferred capital contributions *[note 11]*	**(422,618)**	(429,325)
Due to MaRS Development Trust *[note 7]*	**(81,330)**	(82,466)
Long-term debt *[note 9]*	**(245,275)**	(256,803)
	248,663	265,669

[b] The net change in net assets invested in capital assets is calculated as follows:

	2009 $	**2008** $
Purchase of capital assets	**71,406**	97,653
Amounts funded by deferred capital contributions	**(72,925)**	(82,378)
Depreciation of capital assets	**(92,313)**	(84,758)
Net book value of capital assets written off	**(6,761)**	(8,256)
Repayment to MaRS Development Trust	**1,136**	1,063
Repayment of long-term debt	**11,528**	10,900
Amortization of deferred capital contributions	**70,923**	60,583
	(17,006)	(5,193)

[all amounts in thousands of dollars, except where noted]

13. STATEMENT OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	2009 $	2008 $
Sources (uses) of cash		
Accounts receivable	**(9,459)**	(18,088)
Inventory and prepaid expenses	**(932)**	(824)
Accounts payable and accrued liabilities	**8,893**	16,204
	(1,498)	(2,708)

14. RELATED PARTY TRANSACTIONS

[a] The TG/WH Foundation is an independent corporation without share capital, which has its own Board of Directors. It provides donations to UHN for capital, research and academic purposes. The TG/WH Foundation's accounts are not included in these financial statements. As at March 31, 2009, it had net assets of $250,745 [2008 - $260,412]. For the year ended March 31, 2009, grants of $27,735 [2008 - $35,497] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2009, UHN had receivables from the TG/WH Foundation of $5,601 [2008 - $3,948] recorded in accounts receivable *[note 3]*.

[b] The PMH Foundation is an independent corporation without share capital, which has its own Board of Directors. It provides donations to UHN for capital and operating purposes in connection with cancer research, education and treatment. The PMH Foundation's accounts are not included in these financial statements. As at March 31, 2009, it had net assets of $231,515 [2008 - $246,228]. For the year ended March 31, 2009, grants of $64,954 [2008 - $54,637] were recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2009, UHN had receivables from the PMH Foundation of $18,475 [2008 - $17,350] recorded in accounts receivable *[note 3]*.

[c] The AARC Foundation is an independent corporation without share capital, which has its own Board of Directors. It provides donations to UHN for capital and research purposes in connection with arthritis and autoimmunity. Its accounts are not included in these financial statements. As at March 31, 2009, it had net assets of $18,171 [2008 - $23,624]. For the year ended March 31, 2009, grants of $3,053 [2008 - $2,849] was recorded by UHN as grants and donations for research and other purposes, deferred contributions or deferred capital contributions. As at March 31, 2009, UHN had receivables from the AARC Foundation of $1,516 [2008 - $871] recorded in accounts receivable *[note 3]*.

[d] The Toronto Hospital Research Corporation is inactive.

15. COMMITMENTS AND CONTINGENCIES

[a] UHN is subject to various claims and potential claims. Where the potential liability is determinable, management believes that the ultimate disposition of the matters will not materially exceed the amounts recorded in the accounts. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to claims will be recorded in the year during which the liability is determinable or adjustments to the amount recorded are determined to be required.

[b] UHN participates in the Healthcare Insurance Reciprocal of Canada ["HIROC"]. HIROC is a pooling of the public liability insurance risks of its hospital members. All members of the HIROC pool pay annual premiums, which are actuarially determined. All members are subject to assessment for losses, if any, experienced by the pool for the years in which they were members. No assessments have been made for the year ended March 31, 2009.

[c] The UHN Board of Trustees has approved expenditures for construction and renovation of which $21,934 [2008 - $24,410] have not been incurred and not recorded in the accounts as at March 31, 2009.

[d] Effective March 31, 2006, UHN entered into an agreement with Plexxus, whose primary responsibility is to provide materials management services to its members on a cost-recovery basis. The objective is to provide these services at a lower cost as compared to the members' costs prior to entering into the agreement. Based on the agreement, Plexxus has the right to charge membership fees to its members. A process is established in the agreement for Plexxus to obtain the approval of the members to charge additional fees. If any member fails to pay their membership fees to Plexxus throughout the period covered by the agreement, UHN and the other members are responsible for lending an amount to Plexxus, based on a sharing formula, to cover these deficiencies. As at March 31, 2009, no member was in default.

[all amounts in thousands of dollars, except where noted]

[e] The future minimum annual payments under operating leases consist of the following:

	$
2010	8,209
2011	6,008
2012	3,674
2013	1,395
2014	571
Thereafter	662

16. FINANCIAL INSTRUMENTS

UHN is subject to interest rate price risk with respect to its bond investment portfolio and its long-term debt; and credit risk with respect to its accounts receivable.

17. CAPITAL MANAGEMENT

In managing capital, UHN focuses on liquid resources available for operations. UHN's objective is to have sufficient liquid resources to continue operating despite adverse financial events and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. In addition, UHN is required to achieve certain performance measures related to working capital set out in the HSAA. The need for sufficient liquid resources and achieving the performance measures is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at March 31, 2009, UHN has met its objective of having sufficient liquid resources to meet its current obligations and the performance measures related to working capital set out in the HSAA.

18. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2009 financial statements.

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